

MA TELRIC - DTE 01-20

Number of Geographic Density Zones

Background. In its July 11, 2002 Order (at 218-220), the Department reviewed and discussed the evidentiary record dealing with geographic density zones. The Department observed that data filed by Verizon MA in this proceeding indicate that the cost gap between the Metro wire centers and the Urban wire centers has narrowed since the Phase 4 Order in the *Consolidated Arbitrations*. Based on the record and the various directives contained in the July Order that could effect the relative costs of the density zones, the Department concluded that it was premature to determine whether current cost differences justified maintaining four zones. Accordingly, the Department directed Verizon MA to submit, in its compliance filing, alternative cost results (including all supporting Part B workpapers) for a four density zone scenario, and a three density zone scenario. The Department further stated that the issue affects only the rates for Local Loop, Dark Fiber, and DC Power Consumption. In addition, the Department directed Verizon MA to estimate administrative, advertising, provisioning or other costs associated with a consolidation of density zones.

Response. Costs and all supporting workpapers for both four and three density zones are included in the respective cost study sections for Local Loop, Dark Fiber and DC Power Consumption. Cost results are summarized as follows:

<u>Product</u>	<u>4 zones</u>		<u>3 zones</u>	
Local Loop				
2 wire analog	[M]	12.28	[M]	NA
	[U]	12.42	[U]	12.40
	[S]	16.85	[S]	16.85
	[R]	26.47	[R]	26.47
2 wire digital	[M]	15.14	[M]	NA
	[U]	14.19	[U]	14.34
	[S]	19.69	[S]	19.69
	[R]	32.12	[R]	32.12
4 wire analog	[M]	33.56	[M]	NA
	[U]	26.87	[U]	27.91
	[S]	35.30	[S]	35.30
	[R]	48.59	[R]	48.59

4 wire digital	[M]	33.86	[M]	NA
	[U]	27.02	[U]	28.08
	[S]	35.51	[S]	35.51
	[R]	49.04	[R]	49.04
DS1	[M]	61.72	[M]	NA
	[U]	83.24	[U]	79.89
	[S]	93.79	[S]	93.79
	[R]	144.26	[R]	144.26
Dark Fiber Loop (Per 1/10 mile)	[M]	5.22	[M]	NA
	[U]	5.03	[U]	5.12
	[S]	4.96	[S]	4.96
	[R]	4.70	[R]	4.70
DC Power Consumption (Per DC amp)	[M]	9.53	[M]	NA
	[U]	12.69	[U]	12.07
	[S]	12.83	[S]	12.83
	[R]	16.22	[R]	16.22

Analysis. As noted by the Department at page 218 of its July 11, 2002 Order, the FCC stated in its *Local Competition Order* that state commissions should establish density zones for determining UNE costs based on “significant cost differences.” As shown by the data presented above, for the majority of the services, significant cost differences continue to exist between the Metro and Urban zones.

Assuming that the Department would not be inclined to single out only a few specific services for rate zone consolidation, maintaining the existing 4-zone rate structure for all services is consistent with FCC guidelines. From a competitive point of view, in those few instances where rate differences have narrowed, there is little or no competitive impact associated with either the 4-zone or 3-zone approach because of the similarity of rates between zones. On the other hand, for the majority of the services where rate differences have not narrowed, maintaining 4 zones ensures that correct economic signals about the costs of serving various zones will be captured in the UNE rates, and avoids distorting the true cost differentiation between zones. In addition, maintaining the 4 existing zones would avoid the disruption to Verizon MA’s billing and administration systems and the costs that would result from a zone consolidation. Consolidation of zones would have an impact on several administrative work processes including those employees responsible for billing tables, ordering systems and associated methods and procedures. Although there is no practical way to estimate the impact that changing

zones would have on these specific administrative work processes, changes of this nature would certainly increase operational costs. For all of these reasons, the Department should refrain from changing its prior ruling on density zones and maintain the current 4-zone rate structure.

If, however, the Department decides to order a rate consolidation, Verizon MA would take steps to try to limit at least some of the costs and disruption involved. Specifically, Verizon MA would maintain its existing 4 zone billing structure and input the Metro/Urban average rate into its billing system for both the current Metro and Urban zones. This approach allows for a certain degree of flexibility should the Department order additional changes in the future and, more importantly, avoids many of the significant costs associated with modifying its billing system.